Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)	
	)	
2000 Biennial Regulatory Review - Comprehensive Review of the Accounting Requirements for Incumbent Local Exchange Carriers:	)	CC Docket No. 00-199
	)	
Phase 2 and Phase 3	)	

PHASE 2 COMMENTS OF VERIZON

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I. Introduction and Summary

The Commission's "Phase 2" proposals include several much-needed reforms to its accounting and reporting requirements for the incumbent local exchange carriers. However, like the changes that the Commission implemented in Phase 1, these proposals fall short of the statutory requirement that the Commission eliminate all regulations that are "no longer necessary in the public interest." 47 C.F.R. §161(b). In fact, the Phase 2 notice ignores the statute and actually proposes to <u>increase</u> regulation through additional, highly burdensome reporting requirements, primarily to assist the state commissions in conducting state proceedings. This would exceed the Commission's statutory authority, it would be contrary to the Paperwork Reduction Act, and it would be outside the scope of a biennial review proceeding.

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[1] The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

The Commission's first biennial review failed to make any meaningful reform in its accounting and reporting requirements for the large local exchange carriers. The Commission should take much more aggressive steps in this biennial review proceeding by adopting the proposals made previously by the United States Telecom Association ("USTA") and reiterated today in USTA's comments. In this Phase 2 proceeding, the Commission should eliminate all Class A reporting for all carriers. In Phase 3, the Commission should eliminate Part 32 accounting entirely.

II. The Commission Should Not Allow This Proceeding To Be Turned Into A Vehicle For Increasing The Carriers' Reporting Burdens.

The Commission seeks comments on proposals by several state regulators to add additional accounts to Part 32 for use in state regulatory proceedings. ***See*** *Notice*, ¶ 20 & App. 5. It would be unlawful for the Commission to adopt new reporting requirements simply to meet the needs of state commissions. The Commission's statutory authority for imposing reporting requirements is limited to enforcement and administration of the Act. ***See*** 47 U.S.C. §§ 154(i), 403. Accordingly, the purpose of Part 32 accounting is to enable the Commission to carry out its responsibilities under the Act, not to provide a data collection service for other regulatory bodies. In addition, the Paperwork Reduction Act authorizes the Office of Management and Budget to;

> (1) review[] and approv[e] information collection requests proposed by agencies;
>
> (2) determin[e] whether the collection of information by an agency is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility for the agency; . . . .[2]

[2] 44 U.S.C. @ 3504(c)(1) and (2).

Clearly, a reporting requirement that is designed to elicit information for use in state proceedings would not meet these standards and would not warrant OMB approval. The states must rely upon their own statutory authority to require carriers to report data for use in state investigations.

In addition, the proposal to drastically increase the carriers' reporting requirements has no place in this biennial review proceeding. The purpose of biennial review is to eliminate unnecessary regulations and reduce the regulatory burden on the carriers, not to increase them. The Commission cannot consider these requests in the context of this proceeding.

Even if these states' proposals were within the scope of biennial review, which they are not, they should not be adopted as a matter of policy. These proposals would add over 30 new accounts and sub-accounts and transform Part 32 from a functional accounting system to one that would track costs and revenues for specific services, such as collocation, wholesale, and retail services. This would greatly increase the complexity and burden of the Commission's accounting and reporting system.

For instance, the state proposal would require separate accounts in the cable and wire category for loop and interoffice transport facilities. This is impractical, since both would normally be carried on the same cable facility. Nor would it provide any benefit in ratemaking, as cost studies are more than adequate to develop loop and interoffice transport costs. Segregating state access revenues into sub-accounts for switched access, special access, and subscriber line charges would serve no federal regulatory purpose and would be difficult to administer due to the variety of rate structures in the various states. Similarly, the proposal to establish new revenue and expense accounts for reciprocal compensation, federal universal service fund support, state universal service fund support, resale, wholesale, and collocation would greatly expand the cost and complexity of the Part 32 accounting system.

Many of the accounts proposed by the states, such as the breakdown into wholesale, retail, and collocation, conflict with the Part 32 approach of reflecting costs and revenues in functional accounts rather than individual services. ***See*** 47 C.F.R. §32.2(e). For example, expenses incurred in preparing central office space for collocation should appear in the functional Plant Specific or Plant Non-specific account, not in a unique collocation account. Rental of collocation space should be recorded as part of Rental Revenue. The Commission should not destroy the functionality principle that is the cornerstone of the Uniform System of Accounts to meet state ratemaking objectives that the states can and should address directly.

III. The Commission Should Streamline Its Part 32 Accounting Rules.

The Commission's proposal to eliminate approximately one-fourth of the "Class A" accounts for the large local exchange carriers (***see*** *Notice*, ¶ 17) falls far short of the statutory requirement to eliminate all regulations that are no longer necessary in the public interest. The Commission should eliminate Class A reporting immediately for all carriers. In Phase 3, the Commission should eliminate Part 32 accounting entirely. The carriers do not use Part 32 accounting for any business purpose – it exists solely because the Commission requires it. In its Phase 3 comments, Verizon will demonstrate why the Commission should eliminate Part 32 accounting and allow the carriers to maintain their regulatory and financial books on a consistent basis following generally accepted accounting principles ("GAAP").

There is no need for any carrier to report data for Class A accounts, which provide a layer of unnecessary detail below the Class B level. The carriers use Class B accounts for separations, and they use the results of separations to develop exogenous costs for price caps. Nor are Class A accounts needed for universal service. The Commission's hybrid cost proxy model is based on forward-looking costs, not historic costs as are reflected in the carriers' accounts, and it is designed to use inputs from a variety of sources other than the carriers' reports. The model currently uses some of the carriers' reported expense-to-investment ratios as inputs, but such ratios can be developed from Class B accounts or any chart of accounts using basic accounting principles.[3] Any additional data that the Commission needs for specific regulatory proceedings can be obtained through information requests to the carriers, who can draw upon their subsidiary records.

The Commission asks whether it should retain Class A accounting for use by state commissions in establishing prices for unbundled network elements, collocation, or interconnection.[4] The fact that the Commission asks this question demonstrates that the data are no longer needed for the Commission to carry out its statutory duties. As is discussed above, the Commission cannot justify a reporting requirement based on the fact that some <u>other</u> regulatory body might want to use the data.

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[3] The Commission notes that the model currently uses Class A data to develop the costs of digital equipment, which is combined with analog and electro-mechanical switching costs at the Class B level. ***See*** *Notice*, ¶ 18. However, for large carriers, there is very little non-digital investment in the Class B accounts. For example, 99 percent of Verizon's switching assets are digital, making the Class A and Class B accounts the same for all practical purposes.

[4] ***See*** *Notice*, ¶ 19. The Commission also asks whether the Class A accounts should be retained for use in developing rates for long term number portability. It is extremely unlikely that any carrier will have unrecovered number portability costs after the expiration of the current five-year period that would require establishment of a new rate.

In any event, rates for unbundled network elements, collocation, and interconnection are based on forward-looking cost studies, which the states can evaluate without relying on embedded costs in Part 32 accounts. It is not the Class A or B account information, but the data underlying those accounts, that the states must use in developing rates for UNEs, collocation, and interconnection. In any event, the Class A accounts serve no FCC regulatory purpose and should be eliminated for all carriers.

In addition to adopting Class B accounting for all carriers, the Commission should adopt USTA's proposal to eliminate unnecessary sub-accounts and Jurisdictional Differences Accounts that Class B carriers must report.[5] These sub-accounts are not necessary to meet regulatory requirements and are not normally maintained by the carriers for business purposes. The Jurisdictional Differences Accounts are not used for federal regulatory purposes and the carriers generally provide more detail to the states in these areas than is described in the Commission's Part 32 rules.

IV. The Commission Should Streamline Part 32 To Bring It More In Line With GAAP Standards.

The Commission should adopt the additional USTA proposals for streamlining the Part 32 accounts. ***See*** *Notice,* ¶¶ 21-27.

Inventories. The Commission should eliminate its rules regarding annual inventories of materials and supplies (§32.1220(h)) and station apparatus (§32.2311(f)). ***See*** *Notice,* ¶ 22. The Commission should allow the carriers to follow GAAP in determining when to conduct

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[5] ***See*** *Notice,* ¶ 16. Specifically, the Commission should eliminate sub-accounts 1220.1, 1220.2, 1406.1, 1406.2, 2123.1, 2123.2, 2215.1, 2215.2, 2215.3, 2231.1, and 2231.2, and Jurisdictional Differences main accounts 1500, 4370, and 7910.

inventories. Moreover, the annual inventory requirement is excessive. Inventories in the telecommunications industry are primarily materials and supplies used in the construction or repair of telephone plant and are generally immaterial to the balance sheet of the companies. For Verizon in 1999, station apparatus was only 0.05 percent of total assets and materials and supplies were only 0.53 percent of total assets. These accounts do not bear the same level of risk as goods held for sale. Accordingly, the annual inventory requirement is out of proportion with the risk and should be eliminated, leaving the carriers to apply GAAP in determining when and how to conduct inventories.

Charges to Plant Accounts. The Commission should eliminate the $100,000 threshold in Section 32.2003(b) for charging construction projects directly to plant accounts rather than Construction Work-in-Progress accounts. ***See*** Notice, ¶ 23. The arbitrary $100,000 threshold is unnecessary for price cap carriers and it does not add value to either the regulatory process or business needs. The companies should be allowed to look at the level of activity relative to the size of the company in exercising their judgment under GAAP regarding whether to assign small construction projects directly to plant accounts.

Contributions. The Commission should permit carriers to adopt the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 116 ("SFAS-116"), which permits companies to record as a current period liability and related expense their unconditional pledges to make charitable contributions in future years. ***See*** *Notice*, ¶ 25. Carriers who follow GAAP already apply SFAS-116 for their financial books. A carrier's liability for future charitable contributions should be recognized for both financial and regulatory purposes to accurately reflect the carrier's financial commitments.

Property Records. The Commission should eliminate detailed requirements for property record additions, retirements, and recordkeeping and replace them to follow GAAP controls. Arthur Andersen has estimated that large local exchange carriers spend an average of over $9 million per year to comply with section 32.2000, while unregulated companies spend only about $2 million per year to manage their fixed assets.[6] Rather than retain the detailed rules in sections 32.2000(e) and (f), the Commission should simply require that basic property records be (1) subject to internal accounting controls; (2) auditable; (3) equal in the aggregate to the total investment reflected in the financial property control accounts; and (4) maintained throughout the life of the property. The rules for maintaining continuing property records should provide that;

> (1) property records shall be maintained by original cost where appropriate. Otherwise, averaging or estimates as described below should be used;
>
> (2) average costs may be used for plant consisting of a large number of similar units. Units of similar size and type within each specified account may be grouped;
>
> (3) In cases where the actual original cost of property cannot be ascertained, such as pricing for inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.

The Commission also should adopt the USTA proposals to (1) eliminate the subsidiary record requirements in Section 32.5280(c); (2) simplify deferred tax accounting; (3) eliminate the requirement in section 32.16 for notification and approval prior to adopting FASB standards; and

[6] Ex parte letter of Arthur Andersen, dated July 15, 1998.

(4) clarify that section 252(e) agreements are treated the same as tariffed services in Part 64 cost allocation rules. ***See*** *Notice*, ¶ 27.

V. The Commission Should Streamline Its Affiliate Transaction Rules.

The Commission should adopt is proposals to streamline its rules for transactions between local exchange carriers and their affiliates as discussed in the *Notice,* including the modifications suggested in USTA's comments. ***See*** *Notice*, ¶¶ 28-38. Asset transfers should be given a $1 million threshold under which estimated fair market value need not be calculated. The incumbent local exchange carrier should be allowed to record less than the lower of fully distributed cost or estimated fair market value when purchasing from a nonregulated affiliate and more than the higher of fully distributed cost or estimated fair market value when selling to a nonregulated affiliate. Affiliate transaction rules should not apply (1) when the incumbent local exchange carrier transfers a nonregulated asset or sells a nonregulated service to the nonregulated affiliate; or (2) when the incumbent local exchange carrier purchases an asset or service from the nonregulated affiliate that subsequently is directly assigned to nonregulated activities.

The Commission also should permit centralized services to be provided at fully distributed cost if the services are provided solely to a member of the corporate family, regardless of whether the services are provided by a "service company" affiliate. Today's rules allow cost based pricing only if all of a particular company's services are provided to its affiliates. This arbitrarily excludes centralized services that are solely provided to members of the corporate family simply because the services are not located in an administrative affiliate. Section 32.27(c) should be modified as follows;

. . . . All services ~~received by~~ provided by a carrier or ~~from~~ its affiliate(s), ~~that~~ where the service ~~exist solely to provide services~~ is provided solely to members of the carrier's corporate family, shall be recorded at fully distributed cost. . . .

VI. The Commission Should Streamline Other Accounting Rules To Reduce The Burden On The Carriers.

As is discussed in USTA's comments, the Commission should adopt its proposals to no longer require subsidiary records for Account 5280, Nonregulated Revenue; to eliminate the "treated traditionally" requirement for recording minor nontariffed activities as regulated revenues; to provide carriers the flexibility to expense, rather than capitalize, the costs of all types of equipment up to $2,000 per item; and to allow all local exchange carriers to allocate Part 64 costs at the Class B level. ***See*** *Notice*, ¶¶ 39-43. Verizon also agrees with USTA that the Commission should eliminate the requirement in section 64.901(b)(4) that the carriers allocate the costs of central office equipment and outside plant investment between regulated and nonregulated activities based on a three-year forecast. ***See*** *Notice*, ¶ 45. The level of shared investment has never reached the level originally anticipated in the Joint Cost Order. For example, in 1999, Verizon directly assigned 95 percent of its nonregulated central office and outside plant investment. Such directly assigned investment is not subject to the forecasting rule. Requiring forecasts to identify only 5 percent of nonregulated investment is unnecessary. The Commission should eliminate the forecasting requirement and allow the carriers to allocate shared investment between regulated and nonregulated based on actual current usage.

VII. The Commission Should Streamline The ARMIS Reporting Requirements And Adopt A Schedule For Sunsetting The ARMIS Reports.

The Automated Reporting Management Information System ("ARMIS") is an overly burdensome relic of regulation that is contrary to the de-regulatory goals of the Telecommunications Act of 1996. The Commission should adopt USTA's proposals to streamline the ARMIS reports (***see*** *Notice*, App. 6), and it should adopt a schedule for eliminating all of these reports in the future.

The Commission's ARMIS streamlining proposals do not provide meaningful relief. For example, having the Commission mechanically generate summary reports such as Table I of AMRIS 43-01 and Table I-1 for ARMIS 43-02 and still requiring carriers to report the detail as well as shifting some of the data to other reports do not reduce the carriers' overall reporting burdens. ***See, e.g.,*** *Notice*, ¶¶ 57-60. In addition, the Commission's proposal to eliminate the reporting of obsolete equipment is accompanied by proposals to increase the reporting of items such as advanced switching technologies, loop sheath kilometers, advanced loop technologies, and intrastate private lines. ***See, e.g.,*** *Notice*, ¶¶ 65-79. The Commission also proposes to increase the complexity and burden of Table II of the 43-07 report by requiring data to be broken down between MSA and non-MSA areas. ***See*** *Notice*, ¶ 70. These new reporting requirements would substantially increase the carriers' burdens rather than reduce them, and therefore fail to meet the statutory standard for biennial review. In contrast, USTA's proposals would substantially reduce the ARMIS reporting requirements while still retaining basic information that is not already available in financial reports or at the state level. The Commission should adopt the USTA proposal as the basic framework for streamlining ARMIS.

As proposed by USTA, the Commission should consolidate the ARMIS 43-01, 43-02, 43-03, and 43-04 reports into a streamlined report and allow the carriers to file a single report at the operating company level for most data. ***See*** *Notice*, App. 6. This would reduce the number of pages in the ARMIS reports from almost 200 to five. The USTA proposal would also combine the SNFA /Intra-Company Adjustments with the Other Adjustment column into one adjustment column. In Verizon ARMIS 43-03 for 1999, approximately 0.2% of all adjustments appeared in the SNAF/Intra-Company Adjustment column. The Commission should not require the local exchange carriers to separately identify the cost and revenue for items excluded from price caps. Many local exchange carriers already provide for excluded revenue on the 492 report.

In addition, the Commission should eliminate both the ARMIS 43-07 infrastructure report and the ARMIS 43-08 operating data report. There is no continued need to collect this information at the federal level as opposed to the state level. ***See*** *Notice*, ¶ 76. The Commission's Broadband Competitive Analysis Form 477 includes information about the deployment of new technologies by both the incumbent local exchange carriers and other network providers.[7] The Commission should rely upon these reports rather than trying to update the ARMIS reports to include the new technologies.

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[7] ***See*** *Local Competition Broadband Reporting*, Report and Order, 15 FCC Rcd 7717 (2000).

VIII. Conclusion

For the foregoing reasons, the Commission should adopt the USTA proposals to streamline its accounting and ARMIS reporting requirements rather than adding new burdens on the carriers.

Respectfully submitted,

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ATTACHMENT A

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of Minnesota, Inc. d/b/a Verizon Minnesota
Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Alaska Incorporated d/b/a Verizon Alaska
GTE Arkansas Incorporated d/b/a Verizon Arkansas
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.